Interstate Stores, Inc.
Annual Report 1970

WHITE FRONT • **California** • Anaheim • Bakersfield • Canoga Park • Chula Vista • Costa Mesa • Covina • Downey • East Los Angeles • Fresno • La Mesa • Newark • Normandie—Imperial • Oakland • Ontario • Pacoima • Pleasant Hill • Richmond • Sacramento • San Bernardino • San Carlos • San Diego • San Francisco • San Jose • South Sacramento • South San Francisco • Sunnyvale • Torrance • Thousand Oaks • West Los Angeles • **Oregon** • Portland • **Washington** • Bellevue • Burien • Seattle • Tacoma

TOPPS • **Connecticut** • Berlin • Fairfield • Hartford, Windsor • East Hartford • Middletown • West Haven • **Illinois** • Chicago, Addison • Chicago, Arlington Heights • Chicago, Highland Park* • Chicago, La Grange • Chicago, Markham • Chicago, Morton Grove • Chicago, Oak Lawn • Chicago Heights • Downer's Grove • Elgin • Joliet • Rockford • Waukegan • **Indiana** • Clarksville • Gary • Greenwood • Highland • Indianapolis, 38th Street • Indianapolis, Speedway • Lafayette • Terre Haute • **Iowa** • Davenport • Des Moines • **Kentucky** • Louisville, Hikes Point • Louisville, Outer Loop • Louisville, Dixie Highway • **Maryland** • Baltimore, Dundalk • Baltimore, Glen Burnie • Baltimore, Perring Parkway • Baltimore, Pike Park Mall • Baltimore, Timonium • **Massachusetts** • Fall River • Springfield • West Springfield • **Michigan** • Ann Arbor • Farmington • Detroit, Oak Park • Detroit, Pontiac • Detroit, Redford • Detroit, Southgate • Detroit, Taylor • Detroit, Warren • Detroit, Wayne • Kalamazoo • Lansing • **New Jersey** • Totowa • **New York** • Albany • Buffalo, Central Park • Buffalo, Cheektowaga • Buffalo, Tonawanda • Buffalo, Orchard Park • Rochester • Rochester, Greece • Rochester, Henrietta Plaza • **Ohio** • Canton • Canton, Stark • Cleveland, Maple Heights • Cleveland, Mayfield Heights • Cleveland, Parma Heights • Cleveland, N. Olmstead • Cleveland, Willoughby • Columbus, E. Livingston* • Columbus, Morse Road* • Columbus, Sullivant* • Toledo, Secor Road • Toledo, South Reynold Road • **Pennsylvania** • Philadelphia, Glenolden • Philadelphia, Levittown • **Wisconsin** • Kenosha

TOYS • **California** • Anaheim • Covina • La Mesa • Ontario • Pleasant Hill • Sunnyvale • Torrance • Van Nuys • **Illinois** • Chicago, Calumet City • Chicago, Lincoln Avenue • Chicago, North Milwaukee Avenue • Chicago, East 92nd Street • Chicago, South Cicero Avenue • Chicago, Melrose Park • Chicago, Niles • **Maryland** • Adelphi • Baltimore • Lanham • Marlow Heights • Rockville • **Michigan** • Livonia • Madison Heights • Southfield • Southgate • **New York** • Commack • **Virginia** • Bailey's Crossroads • Fairfax • **Wisconsin** • Milwaukee

CONVENTIONAL STORES • **Illinois** • Aurora Dry Goods, Aurora • Carroll House, Belleville • Rockford Dry Goods, Loves Park • Rockford Dry Goods, Rockford • Waukegan Dry Goods Co., Waukegan • **Indiana** • The Evansville Store, Evansville • The Evansville Store, Lawndale • Stillman's, Fort Wayne • Stillman's, South Gate • Hill's, Marion • Stillman's, Muncie • Hill's, Vincennes • **Kentucky** • Jefferson Dry Goods, Louisville • Paducah Dry Goods Co., Paducah • **Michigan** • The Fair, Court Mall • The Fair, Flint • The Fair, North Flint • Stillman's, Jackson • **New York** • Boston Store, Latham • Boston Store, Massena • Boston Store, Schenectady • Stanley's, Troy • Boston Store, Utica • **Ohio** • The Boston Store, Springfield • **Pennsylvania** • Carroll House, Williamsport • **South Carolina** • Bailes, Anderson • **Tennessee** • The Knox, Knoxville • **Vermont** • Economy Department Store, Rutland • **West Virginia** • The Huntington Store, Huntington • **Wisconsin** • Fond du Lac Department Store, Fond du Lac

*Discontinued, April, 1971

Interstate Stores, Inc.
Annual Report 1970

Directors

Sam J. Abend
Sol W. Cantor
Samuel Hausman
Julian Lavitt
Charles Lazarus
M. Lester Mendell
Albert Parker
Paul D. Preger
Robert Riesner
Edward C. Schenkel
Harold J. Szold
Robert C. Van Tuyl

Officers

Sol W. Cantor, Chairman
Robert Riesner, President
Charles Lazarus, Senior Vice President
Sam J. Abend, Vice President
David Bernstein, Vice President
Richard Chalifoux, Vice President
Walter Craig, Vice President
Daniel L. Reit, Vice President
Edward C. Schenkel, Treasurer
Albert Parker, Secretary
Solomon Fisher, Assistant Secretary
Norman Ricken, Assistant Secretary

Transfer Agent

Bankers Trust Company, N.Y.

Registrar

Manufacturers Hanover Trust Co., N.Y.

General Counsel

Parker, Chapin and Flattau, N.Y.

Auditors

S. D. Leidesdorf & Co., N.Y.

Executive Offices

111 Eighth Avenue, New York, N.Y. 10011

Annual Meeting
Fourth Wednesday in May
Shares Listed
New York Stock Exchange—ISD

To Our Shareowners:

Sales of Interstate Stores, Inc., amounted to $685 million for the fiscal year that ended January 31, 1971, which compares with $656 million in the prior year. Sales of supermarket operations are no longer consolidated and have been excluded from leased department sales for both years. The increase of $29 million in last year's sales was due primarily to the opening of new stores during the year.

Net earnings amounted to $1.4 million, which compares with $8.8 million the year before. Earnings were equal to $.25 a share and $1.70 the year before. In the last quarter of the year the Company earned $.70 a share, which enabled it to offset the $.45 a share loss incurred in the prior three quarters.

Interstate's major market areas were severely affected by the business recession, the General Motors strike, the retrenchment of the aerospace industry, and the sharp decline in new housing. Unemployment reached peak levels in many of the Company's primary markets, including sections of California, Washington, Oregon, Michigan, Indiana, Ohio, Illinois, Connecticut, and upstate New York.

Financial Highlights *(in millions)*	**1970**	**1969**
Total Sales	$684.7	$656.6
Earnings before Taxes	2.7	17.1
Net Earnings	1.4	8.8
Earnings Per Share*	.25	1.70
Dividends Per Share	.45	.60
Working Capital	54.3	50.7
Current Ratio	1.5 to 1	1.5 to 1
Total Assets	286.7	263.1
Mortgages Payable	30.8	21.2
Other Long Term Debt	41.1	28.8
Stockholders' Equity	97.2	98.3

**Based on average number of shares for each year.*

In addition to these factors, Interstate's sales and earnings were affected by strikes in its stores in Flint, Toledo, and Louisville, each lasting approximately four months, and by the loss incurred in terminating the unprofitable furniture operations of its White Front stores on the West Coast.

It became evident in the latter part of the year that the Company would not earn its dividend requirements for the full year. Accordingly,

the Board of Directors elected to omit the fourth quarter dividend that normally would have been paid February 15 of the current year. During the year, three dividends were declared and they totalled 45 cents a share.

The Company's financial condition remains sound. Working capital increased $3.6 million and stockholders equity came close to matching last year's record high. Additional lines of bank credit became available and borrowings of $13 million were obtained on a revolving 5-year basis. The Company is adequately financed to handle expansion projected for the current year and to meet its other needs.

The new 80,000-sq. ft. Boston Store, which opened in October, serves the greater Schenectady area. Another new suburban store, the ninth in the chain, is scheduled to open later this year in Oak Ridge, Tenn.

Interstate added a total of 21 stores during the year. They included seven Topps units, six White Fronts, seven toy stores, and one suburban department store. Half of the openings were in the last quarter. At the end of the year, the complex of Interstate stores totalled 167, and included 75 Topps, 34 White Fronts, 28 toy stores, 8 suburban department stores, and 22 downtown department stores. Two small department stores, located in Peoria, Illinois, and Battle Creek, Michigan, were closed during the year when their leases expired. A Topps unit in Madison, Wisconsin, was also closed and the property was subleased. In April, 1971, three unprofitable stores in Columbus, Ohio, and one in Chicago were discontinued.

The Company's expansion program in 1971 will be targeted on the opening of 15 units. Emphasis this year will be on toy stores. Plans include the opening of ten toy stores, one suburban department store, three White Fronts, and one Topps.

Various moves were made to re-align senior management. Three

vice presidents were elected in May, 1970. David Bernstein was made Vice President and General Merchandise Manager; Richard Chalifoux was elected Vice President and Director of Industrial Relations; and Daniel Reit became Vice President and Director of Real Estate. Later in the year Seymour Ginsburg, one of the founders of Children's Bargain Town, U.S.A., became President of the subsidiary and assumed operating responsibility for the Chicago-based chain of toy stores.

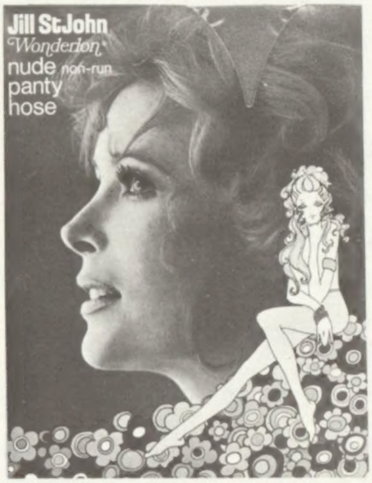
In February of the currrent year Charles Lazarus was elected Senior Vice President of the Company and Walter Craig was made Regional Vice President in charge of White Front operations. Mr. Lazarus, founder of Children's Supermarts, one of the Company's two toy operations, continues as President of Children's Supermarts, while assuming corporate responsibilities for Interstate as well. Walter Craig came to the Company in 1967 as a store manager and worked as a group manager until elected to his new post.

An important key to the immediate outlook for retailing is the consumer's confidence in the economic outlook of the nation. Some economists feel a resurgence is beginning to take hold and that it will become more evident as the year progresses, particularly in the second half. When it is restored, it should have a marked effect on Interstate's performance. As a result of actions taken to strengthen operations and to sharpen its competitive position, the Company is well situated to take

Important economies are anticipated from the new 294,000-sq. ft. warehouse in Secaucus, N.J. It replaces five New York City facilities and offers significant new distribution capabilities.

advantage of the turn in the economic tide when it occurs. Interstate's prospects also reflect the fact that many of the problems that affected its operations last year—the General Motors strike, its own strikes in three major cities, and the loss from its discontinued White Front furniture operations—are now all behind it.

Particularly significant from a long-range point of view are the Company's continuing efforts to develop and train additional management personnel and to fashion new management systems geared to its size and complexity and attuned to the growth opportunities that lie ahead.



Pantyhose were the first item to carry the Company's newest private label. Plans call for a full line of ladies and junior misses fashion apparel bearing the Jill St. John brand name.

The field of retailing continues to offer exciting growth potential in the areas of discount retailing, specialty retailing such as toy stores, suburban department stores, and certain kinds of key downtown stores that are able to establish a strong consumer franchise based on style and service. As a broad-based Company, with interests in all of these areas, Interstate expects to participate fully in the expansion that lies ahead for retailing, and to resume the pattern of growth of prior years.

Sincerely,

SWCantor — Robert Riesner

Sol W. Cantor
Chairman

Robert Riesner
President

Ten Year Financial Review

	1970	1969	1968	1967
Operations				
Total Sales (Excludes Supermarkets)	$684,696,000	$656,550,000	$589,355,000	$506,969,000
Discount Store Sales (Including Toys)	613,540,000	581,280,000	517,813,000	442,486,000
Conventional Store Sales	71,156,000	75,270,000	71,542,000	64,483,000
Earnings before Taxes	2,713,000	17,100,000	21,981,000	17,797,000
Net Earnings	1,373,000	8,800,000	10,981,000	10,197,000
Earnings Per Share*	.25	1.70	2.27	2.16
Financial				
Working Capital	$ 54,272,000	$ 50,673,000	$ 55,290,000	$ 57,142,000
Current Ratio	1.5 to 1	1.5 to 1	1.8 to 1	1.9 to 1
Total Assets	286,723,000	263,057,000	195,593,000	165,610,000
Fixed Assets	97,485,000	78,427,000	55,847,000	37,228,000
Mortgages Payable	30,771,000	21,159,000	12,155,000	4,713,000
Other Long Term Debt	41,107,000	28,813,000	29,991,000	30,019,000
Stockholders' Equity	97,171,000	98,301,000	76,031,000	66,706,000
Dividends				
Cash, Per Share	.45	.60	.60	.48
Stock Dividends	—	—	—	—
Stock Splits	—	—	—	5-for-4
Stores				
Discount	109	97	86	75
Conventional	30	31	31	32
Toys	28	21	8	6
Total	167	149	125	113

**Based on average number of shares for each year, adjusted to give effect to all stock dividends and stock splits.*

1966	1965	1964	1963	1962	1961
$460,535,000	$398,207,000	$358,231,000	$296,224,000	$219,614,000	$165,219,000
399,741,000	342,002,000	304,055,000	241,446,000	164,288,000	108,462,000
60,794,000	56,205,000	54,176,000	54,778,000	55,326,000	56,757,000
17,340,000	14,433,000	11,122,000	7,122,000	5,249,000	3,829,000
9,790,000	7,933,000	5,922,000	3,907,000	2,909,000	2,079,000
2.13	1.79	1.41	1.05	.79	.57
$ 37,641,000	$ 38,769,000	$ 37,618,000	$ 28,178,000	$ 14,786,000	$ 14,904,000
1.6 to 1	1.9 to 1	2.1 to 1	2.1 to 1	1.5 to 1	1.9 to 1
133,015,000	108,366,000	91,287,000	68,610,000	59,670,000	45,268,000
27,380,000	19,158,000	12,925,000	9,557,000	9,780,000	8,340,000
2,939,000	1,292,000	380,000	250,000	280,000	311,000
10,620,000	12,500,000	15,200,000	15,369,000	5,682,000	6,649,000
57,843,000	48,648,000	40,639,000	26,363,000	23,218,000	20,620,000
.46	.39	.30	.22	.17	.14
4%	4%	4%	4%	4%	2%
—	—	2-for-1	—	—	3-for-1
66	59	58	51	44	25
31	31	32	34	36	37
4	—	—	—	—	—
101	90	90	85	80	62

Consolidated Balance Sheets

Interstate Stores, Inc.
and Subsidiary Companies

	1970 (Jan. 31, 1971)	1969 (Feb. 1, 1970)
Assets		
Current Assets:		
Cash	$ 9,956,000	$ 10,046,000
Short-term investments—at cost (approximates market)	1,010,000	1,295,000
Accounts receivable:		
Customers (net of reserves of $488,000 and $448,000, respectively)	11,161,000	11,977,000
Other (Note D)	9,423,000	10,879,000
Merchandise inventories (at the lower of cost or market, determined principally by the retail method) (Note G)	126,082,000	121,229,000
Fixed assets held for sale	1,866,000	
Prepaid expenses	3,081,000	2,796,000
Total Current Assets	162,579,000	158,222,000
Other Assets (Note D)	5,895,000	5,398,000
Fixed Assets—at cost (Note B):		
Land and buildings	38,679,000	31,080,000
Furniture and equipment	55,964,000	44,836,000
Leaseholds and leasehold improvements	25,159,000	20,260,000
	119,802,000	96,176,000
Less: Reserves for depreciation and amortization	22,317,000	17,749,000
	97,485,000	78,427,000
Deferred Charges	2,496,000	2,628,000
Intangibles Applicable to Subsidiaries Acquired (Note A)	18,268,000	18,382,000
	$286,723,000	$263,057,000

See accompanying notes

	1970 (Jan. 31, 1971)	1969 (Feb. 1, 1970)
Liabilities		
Current Liabilities:		
Notes payable—banks		$ 6,169,000
Current installments of long-term debt (Note B)	$ 1,219,000	1,151,000
Mortgage applicable to fixed assets held for sale	615,000	
Accounts payable—trade	84,034,000	71,856,000
Accrued expenses and other liabilities	15,599,000	19,708,000
Taxes withheld and accrued, other than Federal income taxes	5,398,000	4,647,000
Accrued Federal income taxes	1,442,000	4,018,000
Total Current Liabilities	108,307,000	107,549,000
Long-term Debt (Note B):		
Mortgages	30,771,000	21,159,000
Debentures, notes and other	41,107,000	28,813,000
	71,878,000	49,972,000
Deferred Items (including Federal income taxes of $6,128,000 and $4,728,000, respectively)	9,367,000	7,235,000
	189,552,000	164,756,000
Stockholders' Equity (Notes B, C and F):		
Common Stock (stated at par value of $1 per share, plus $1,271,000 retained as Capital by resolution of the Board of Directors):		
Shares — Authorized: 1970 10,000,000; 1969 10,000,000		
Shares — Issued: 1970 5,466,000; 1969 5,438,000	6,737,000	6,709,000
Capital Surplus	48,721,000	48,771,000
Retained Earnings	41,738,000	42,821,000
	97,196,000	98,301,000
Less: Treasury Stock—at cost—6,000 shares	25,000	
	97,171,000	98,301,000
Commitments, Contingencies and Other Comments (Notes D, E and I)		
	$286,723,000	$263,057,000

to financial statements.

Consolidated Statements of Earnings and Retained Earnings

Interstate Stores, Inc.
and Subsidiary Companies

	1970 (Year Ended Jan. 31, 1971)	1969* (Year Ended Feb. 1, 1970)
Sales and Other Income:		
Net Sales:		
Owned departments	$572,605,000	$545,552,000
Leased departments (Note J)	112,091,000	110,998,000
	684,696,000	656,550,000
Other Income—Net	2,988,000	4,338,000
	687,684,000	660,888,000
Costs and Expenses:		
Cost of Sales (including certain buying, occupancy and distribution expenses) (Note J)	532,817,000	513,060,000
Selling, General and Administrative Expenses	140,237,000	122,546,000
Depreciation and Amortization (computed on the straight-line method)	6,187,000	4,801,000
Interest—Mortgages	1,740,000	982,000
Interest—Other	3,990,000	2,399,000
	684,971,000	643,788,000
Earnings before Federal Income Taxes	2,713,000	17,100,000
Provision for Federal Income Taxes:		
Current	210,000	6,465,000
Deferred	1,130,000	1,835,000
	1,340,000	8,300,000
Net Earnings	1,373,000	8,800,000
Retained Earnings—at beginning of year	42,821,000	37,122,000
	44,194,000	45,922,000
Cash Dividends Declared	2,456,000	3,101,000
Retained Earnings—at end of year (Note B)	$ 41,738,000	$ 42,821,000
Per share of Common Stock (Note H):		
Net earnings—assuming no dilution	$.25	$1.70
Net earnings—assuming full dilution	$.25	$1.60

**Reclassified*

See accompanying notes to financial statements.

Consolidated Statements of Source and Application of Funds

Interstate Stores, Inc.
and Subsidiary Companies

	1970 (Year Ended Jan. 31, 1971)	1969 (Year Ended Feb. 1, 1970)
Source of Funds:		
Net earnings	$ 1,373,000	$ 8,800,000
Non-cash items:		
Depreciation and amortization	6,187,000	4,801,000
Increase in deferred Federal income taxes	1,130,000	1,835,000
	8,690,000	15,436,000
Increase in other deferred items	1,002,000	548,000
Issuance of treasury stock		620,000
Increase in long-term debt:		
Mortgages	12,478,000	8,167,000
Other long-term debt (before deducting $226,000 and $178,000, respectively, net of related expenses, of Debentures converted into Common Stock)	13,282,000	456,000
Exercise of employee stock options	49,000	144,000
Sale of capital stock		15,630,000
Sale of fixed assets (including $1,866,000 of fixed assets held for sale, included in current assets at January 31, 1971)	5,657,000	375,000
	$41,158,000	$41,376,000
Application of Funds:		
Fixed assets acquired:		
Land and buildings	$12,105,000	$ 9,653,000
Other fixed assets	18,797,000	14,560,000
Cash dividends	2,456,000	3,101,000
Increase in other assets	497,000	2,735,000
Increase in deferred charges	190,000	976,000
Increase/(decrease) in intangibles	(114,000)	741,000
Repayments and current maturities of long-term debt	3,628,000	2,051,000
Consideration paid for purchase of a group of corporations, in excess of working capital acquired		12,176,000
Increase/(decrease) in working capital	3,599,000	(4,617,000)
	$41,158,000	$41,376,000

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE A—The consolidated financial statements include the accounts of the Company, all subsidiaries and all majority-owned joint ventures. See Note D with respect to 50% owned corporations and joint ventures not consolidated.

In March 1969, the Company purchased all the outstanding capital stock of Steel City Department Stores, Inc. and affiliated companies (which are engaged in the retail toy business) for $15,000,000. The operations of these businesses have been included with consolidated results since date of acquisition. As of that date, the purchase price exceeded the net assets of the acquired companies by approximately $10,000,000; this excess has been allocated to Intangibles Applicable to Subsidiaries Acquired. In the opinion of management, no amortization of these or other intangibles is required, since there is no indication of loss of utility or of limitation on the useful lives thereof.

NOTE B—Long-term debt consists of the following:

	January 31, 1971	February 1, 1970
5⅜% Notes—insurance companies	$ 7,250,000	$ 8,000,000
4⅝% Convertible Subordinated Debentures due August 1, 1981	485,000	716,000
4% Convertible Subordinated Debentures due August 1, 1992	20,000,000	20,000,000
Mortgages	31,478,000	21,777,000
Renewable notes	13,000,000	
Other	884,000	630,000
	73,097,000	51,123,000
Less current installments	1,219,000	1,151,000
	$71,878,000	$49,972,000

The 5⅜% Notes are payable $500,000 a year through 1976, $600,000 a year from 1977 through 1982 and $650,000 in 1983.

The indentures applicable to the 4⅝% and 4% Debentures require annual redemptions of $275,000 and $900,000, respectively, aggregating as follows: $275,000 through 1977, $1,175,000 from 1978 to 1980, and $900,000 from 1981 to 1991. Each Debenture's annual redemption requirement is subject to reduction, at the Company's option, for prior conversions which aggregate $5,375,000 (applicable solely to the 4⅝% Debentures) as at January 31, 1971. It is the Company's present intention to exercise this option. The 4⅝% and 4% Debentures may be converted into Common Stock at conversion prices of $9.40 and $43.89 a share, respectively. During the years ended January 31, 1971 and February 1, 1970, $231,000 and $181,000 of 4⅝% Debentures were converted into 25,000 and 20,000 shares of Common Stock, resulting in increases in Common Stock of $25,000 and $20,000 and in Capital Surplus of $201,000 and $158,000 (net of related unamortized debt discount and expense). Based upon the foregoing conversion prices, the outstanding Debentures as at January 31, 1971 are convertible into 507,000 shares of Common Stock.

In November 1970, the Company borrowed $13,000,000, evidenced by six-month notes, renewable at its option. The interest rate (presently 9⅜%) is reestablished at each renewal date at 1¼% over first class bank rates for six-month U.S. dollar deposits in the Eurodollar market. The maximum amount of the loan ($13,000,000) is to be reduced by 25% in 1973, 25% in 1974 and the balance of the loan is due in 1975. It is the Company's present intention to continually renew the notes under the terms of the agreement and, accordingly, the loan has been classified as long-term debt at January 31, 1971.

Formulae contained in certain of the loan agreements limit the aggregate amount available for cash dividends to approximately $35,000,000 as at January 31, 1971.

The mortgages (1) bear interest at annual rates of 4½% to 10%, (2) are payable in varying installments with final payments becoming due in 1972-2000 and (3) are collateralized by fixed assets having a depreciated cost of $35,622,000.

See Note D as to long-term debt (not included herein) of 50% owned corporations and joint ventures.

NOTE C—Under the Company's stock option plans, options for 32,000 shares may be granted to 1971, for 73,000 shares to 1973 and for 80,000 shares to 1978, at not less than the fair market value at date of grant. Depending on the plan, options are either exercisable 25% a year (on a cumulative basis) commencing one year from date of grant or are exercisable in full after four years and nine months from date of grant. Options expire five years from date of grant. Changes in shares subject to outstanding stock options are as follows:

	Year ended January 31, 1971	February 1, 1970
Outstanding beginning of year	158,000	134,000
Granted	97,000	39,000
Lapsed	(30,000)	(5,000)
Cancelled	(54,000)	
Exercised	(3,000)	(10,000)
Outstanding end of year (at prices ranging from $10.79 to $45.38 a share)	168,000	158,000

The options exercised resulted in credits to Common Stock of $3,000 (1970) and $10,000 (1969) and Capital Surplus of $46,000 (1970) and $134,000 (1969).

NOTE D—Subsidiaries of the Company have 50% interests in a number of corporations and joint ventures, whose functions are to acquire properties, construct store buildings thereon and lease all or substantial portions thereof to other subsidiaries. The investments in (carried at proportionate share of underlying equity) and advances to these companies aggregated $2,456,000 and $6,408,000 as at January 31, 1971 and February 1, 1970, respectively. Of these amounts, $512,000 (1970) and $3,447,000 (1969) are included in Accounts Receivable—Other and $1,944,000 (1970) and $2,961,000 (1969) are included in Other Assets. The subsidiaries' share (included in Other Income—Net) of net income/(loss) of these entities aggregated ($17,000)—1970 and $61,000—1969.

As at their respective fiscal year-end dates (December 31 or January 31) net fixed assets and long-term debt of the above 50% owned entities, not included in the Consolidated Balance Sheets, were as follows:

	1970	1969
Net fixed assets	$73,440,000	$60,565,000
Long-term debt	$65,122,000	$44,125,000

As at January 31, 1971, subsidiaries of the Company were contingently liable as to $4,345,000 of the above long-term debt; these obligations bear interest at annual rates of 5¼% to 9¾% and are payable in varying installments with final payments becoming due in 1979-2001.

In addition the Company and certain subsidiaries had guaranteed bank indebtedness of some of the 50% owned companies aggregating $5,660,000 at January 31, 1971. It is anticipated that this indebtedness will be refinanced on a long-term basis not subject to such guarantee. Data included in this paragraph for 1970 and, in part for 1969, are based upon unaudited financial statements.

The consolidated statements of earnings include amounts received from and paid to some of the 50% owned companies and joint ventures, as follows: income representing fixed annual amounts and/or amounts equivalent to cash flow from real estate (as defined in certain joint venture agreements) of $291,000 (1970) and $455,000 (1969), interest income of $362,000 (1970) and $162,000 (1969) and rentals paid of $5,915,000 (1970) and $4,770,000 (1969).

Certain joint ventures distributed to certain participants (subsidiaries of the Company) an aggregate of $72,000 (1970) and $48,000 (1969).

NOTE E—Minimum annual rentals of real and personal property leased to the Company or to its subsidiaries amount to approximately $19,500,000 (including $6,900,000 under leases with 50% owned corporations and joint ventures referred to in Note D) plus, in certain instances, additional rentals based upon sales and charges for real estate taxes, insurance, etc. Of the aggregate annual rentals, $5,600,000 expires prior to 1985, $5,200,000 expires between 1985 and 1990, and $8,700,000 expires after 1990.

At January 31, 1971, the Company and certain subsidiaries are contingently liable for approximately $2,890,000 relating to certain of their landlords' obligations; such contingent liabilities are subject to reduction to the extent that required payments are made by the landlords against such obligations.

NOTE F—During the year ended January 31, 1971, 6,000 shares of the 10,000 shares of Common Stock issued to an employee in the prior year (see (4) below) were retransferred to the Company pursuant to an amendment to his employment contract. This transaction resulted in charges to Treasury Stock of $25,000 and to Capital Surplus of $297,000.

During the year ended February 1, 1970, the Company:

(1) increased its authorized shares of Common Stock to 10,000,000 shares,

(2) sold 500,000 shares of Common Stock to the public. The excess ($15,130,000) of net proceeds over par value of the stock sold ($500,000) has been credited to Capital Surplus,

(3) issued 7,000 shares of Treasury Stock as partial payment of its Retirement Income Plan cost; the excess ($202,000) of such payment over the cost of the Treasury Stock issued has been credited to Capital Surplus, and

(4) issued 10,000 shares of Treasury Stock to an employee representing, at that time, additional compensation for the three year period ending January 30, 1972 (see the first paragraph of this note). The excess ($344,000) of the fair market value of the 10,000 shares over the cost thereof has been credited to Capital Surplus.

See Notes B and C for other stock issued.

NOTE G—Effective February 3, 1969, the Company changed its method of stating certain portions of merchandise inventories from last-in, first-out to average cost, both determined by the retail method. This change had no material effect on net earnings for the year ended February 1, 1970.

NOTE H—Earnings per share have been computed in accordance with Opinion 15 of the Accounting Principles Board of the American Institute of Certified Public Accountants. Net earnings per share, assuming full dilution, include, where applicable, the effect of assuming that Common Stock was issued for Debentures converted and Stock Options exercised.

NOTE I—Subsequent to January 31, 1971 (through April 19, 1971), the Company borrowed an aggregate of $39,000,000 on a short-term basis. Short-term borrowings made subsequent to the end of the prior fiscal year (through April 30, 1970) aggregated $27,000,000. At April 19, 1971 and April 30, 1970, total short-term borrowings were $39,000,000 and $33,000,000, respectively.

NOTE J—Commencing February 2, 1970 the Company adopted the policy of excluding supermarket sales from reported leased department sales and accordingly the consolidated statement of earnings for the year ended February 1, 1970 has been restated for this change, which had no effect on net earnings.

Accountants' Report

To the Board of Directors
Interstate Stores, Inc.
New York, N. Y.

We have examined the consolidated balance sheets of Interstate Stores, Inc., and subsidiary companies as at January 31, 1971 and February 1, 1970, and the related consolidated statements of earnings and retained earnings and of source and application of funds for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of Interstate Stores, Inc., and subsidiary companies at January 31, 1971 and February 1, 1970, and the consolidated results of their operations and consolidated source and application of funds for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

S. D. Leidesdorf & Co.
Certified Public Accountants

New York, N. Y.
April 19, 1971